

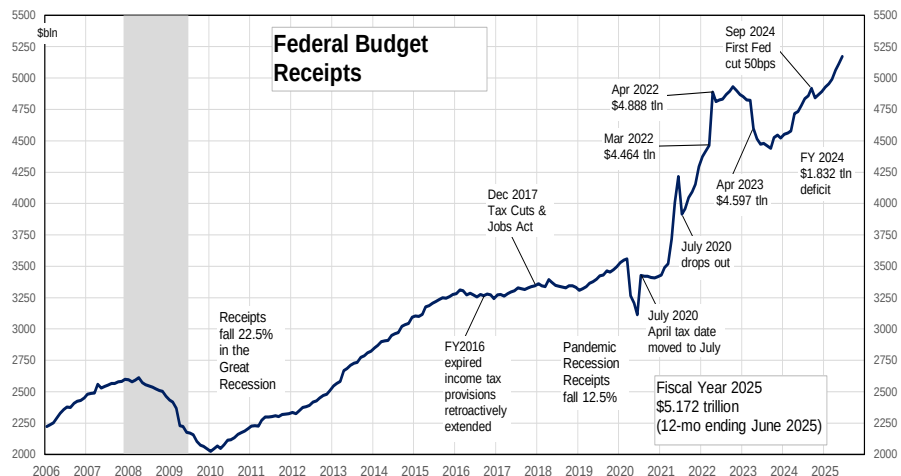
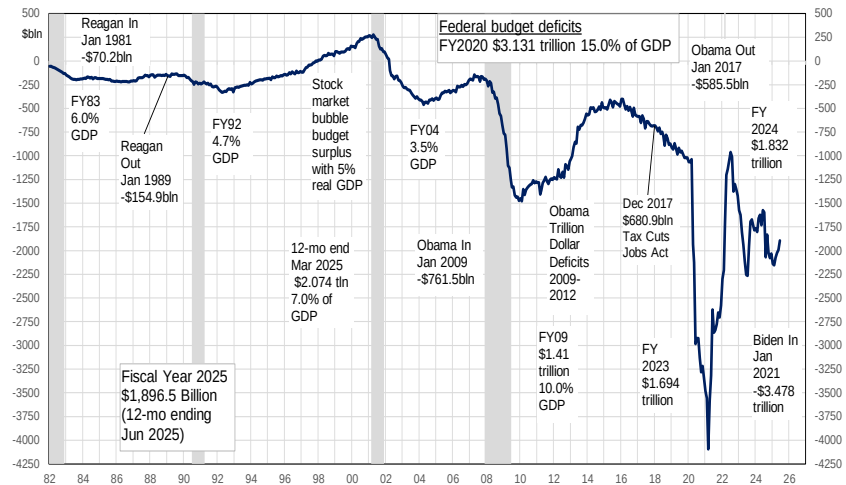
Financial Markets This Week

11 JULY 2025

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FISCAL CRISIS

We were going to go with “FEDERAL BUDGET” this week, but none of our Washington contacts would read it. The June 2025 Federal budget results were released Friday at 2pm which covers three-quarters of the current fiscal year. Congress voted through the big bill, but FY2026 budget levels are still murky, though the OMB Mid-Session Budget Review which is due any day now might help. The CBO says the bill will add \$3.4 trillion to the national debt over the next ten years, an amount which has some up in arms, although this would be a good result actually (even if the number will go higher as Congress is unlikely to let many provisions expire before the end of the ten year period). Historically, nominal national Federal debt levels have not increased less than \$5 trillion over any ten year span since 2008. The deficit is running \$1.896 trillion this year on a 12-month trailing sum basis versus \$1.832 trillion in FY2024. Receipts have rebounded after the slowdown in FY2023: smaller capital gains CY2022 S&P 500 -19.4%, California natural disaster delayed tax payments until FY2024. The gain in FY2025 to \$5.172 trillion is mostly income taxes; import tariffs FY2025 YTD are \$108.0 billion versus \$55.6 billion this time last year. Before the Trump tariff letters on Monday, June 2025 customs duties were \$26.6 billion, about \$20 billion more than in June 2024, current collections then, going forward add about \$250 billion in revenues to fight the budget deficit red ink. Anyway, consumers have income, are paying the IRS taxes, so no recession. For FY2025, 12-month trailing sums are \$1.896 billion for the deficit and \$7.068 trillion for spending. The deficit is “affordable” if it increases the national debt less than the percentage increase in nominal GDP which was a little less at 4.7% year-on-year given Q1 real GDP of -0.5%.



Marketable Treasuries Average		
Jun 2025	\$trillion	Rate %
Bills	5.783	4.306
Notes	15.068	3.048
Bonds	5.030	3.297

Interest on the national debt is a topic of interest. Thank you for your attention to this matter. Our view is not to go overboard with your “fiscal crisis” concern, just wait for the bond market to lead the way by reacting negatively. Bonds have not. We read one article forecasting the national debt would get so bad that bond yields would move up 60 bps higher. Seriously. [Federal debt to the penny](#) was \$36.2 in June 2025, but marketable Treasuries outstanding (Bills Notes Bonds) are only \$25.9 billion. The rest of the national debt is nonmarketable and “does not matter.” If Fed rates come down to 3%, the yield curve out to 10-years goes out to 100 bps, so the average rate on notes, currently 3.048%, could still climb somewhat higher, same for bonds. Bill yields would drop to about 3% so there are some interest savings there, but there were only \$5.783 trillion of bills outstanding at the end of June.

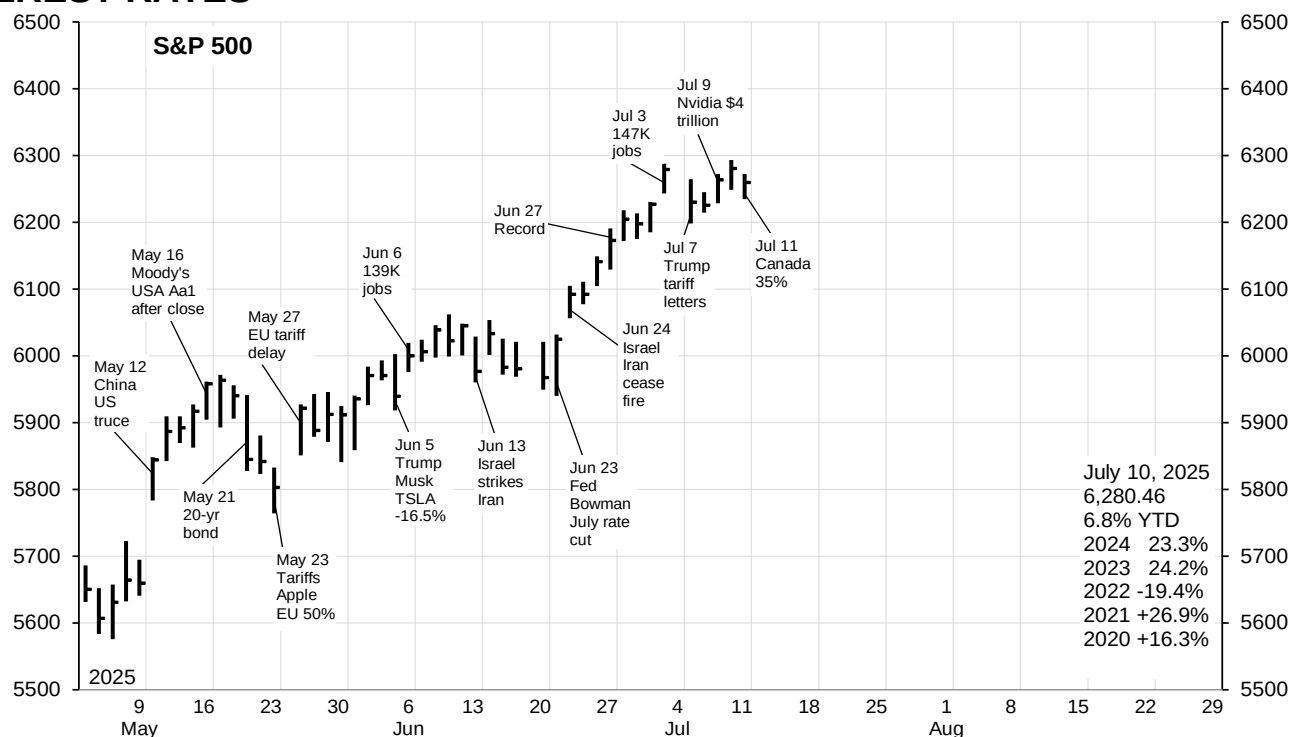
The changes down in Washington have not hit government spending yet as FY2025 spending through June is up 6.3% from comparable year ago levels. Interest on public debt is up 6.1% with the Fed starting 100 bps of rate cuts to 4.5% last September. Homeland Security is supposed to get more money, and was already up 34.1% to \$88.115 billion on FEMA Disaster Relief. Medicaid changes are slowly coming, up 6.9% to \$491.4 billion. Food stamps barely changed at \$80.1 billion. Stay tuned. The Federal budget deficit needs to stick below \$1.7 trillion if the economy is growing 4.7%. No fiscal crisis yet.

Federal Government Spending (\$bln)			Fiscal	Fiscal	
Where to cut?			3 Qtrs FY25	3 Qtrs FY24	Year
	Q4 24-Q2 25	Q4 23-Q2 24	Changes	% chg	Full Year
					FY 2024
TOTAL BUDGET OUTLAYS	5,345.518	5,027.456	318.062	6.3	6,750.499
Legislative	5.311	4.985	0.326	6.5	6.835
Judicial	7.134	6.931	0.203	2.9	9.480
Agriculture	176.544	159.939	16.605	10.4	203.402
Fed Crop Insurance fund	16.288	11.408	4.880	42.8	9.768
Food Stamps	80.108	79.715	0.393	0.5	106.754
Child Nutrition	27.592	26.447	1.145	4.3	32.733
Commerce	19.569	10.259	9.310	90.7	14.831
Defense	647.416	608.570	38.846	6.4	826.277
Military Personnel	159.763	148.446	11.317	7.6	191.945
Operation Maintenance	251.580	238.766	12.814	5.4	332.047
Procurement	121.817	112.153	9.664	8.6	152.259
Research Development	102.139	99.142	2.997	3.0	137.960
Military Construction	9.886	8.922	0.964	10.8	12.068
Education	100.812	202.496	-101.684	--	268.353
Office of Federal Student Aid	40.344	121.830	-81.486	-66.9	160.693
Energy	39.526	36.740	2.786	7.6	49.315
Health Human Services	1376.007	1257.589	118.418	9.4	1720.621
Medicare	862.914	761.073	101.841	13.4	1052.675
Medicaid States Grants	491.381	459.861	31.520	6.9	617.517
Homeland Security	88.115	65.711	22.404	34.1	89.290
Housing Urban Development	53.671	35.894	17.777	49.5	51.976
Interior	16.037	12.599	3.438	27.3	17.088
Justice	32.876	32.170	0.706	2.2	43.995
Labor	45.279	39.216	6.063	15.5	65.672
State Unemployment Benefits	28.906	27.153	1.753	6.5	36.611
State	22.291	24.638	-2.347	-9.5	37.017
Transportation	85.894	79.192	6.702	8.5	117.389
FAA	17.796	16.926	0.870	5.1	23.096
Federal Highway Admin.	43.527	40.671	2.856	7.0	61.523
Treasury	1150.632	1045.231	105.401	10.1	1316.852
IRS	234.015	183.566	50.449	27.5	229.985
Premium Tax Credit	91.874	75.481	16.393	21.7	110.195
Earned Income Credit	64.532	58.681	5.851	10.0	60.011
Child Tax Credit	25.949	25.567	0.382	--	26.247
Interest on Public Debt	920.965	867.746	53.219	6.1	1133.037
Veterans Affairs	277.824	235.283	42.541	18.1	325.004
Corps of Engineers	9.704	8.130	1.574	19.4	11.345
Other Defense Civil Programs	57.890	46.847	11.043	23.6	66.220
Environmental Protection	32.229	9.573	22.656	236.7	13.699
Exec. Office of President	-0.598	0.451	-1.049	-232.6	0.607
International Assistance	23.018	22.894	0.124	0.5	35.794
NASA	18.064	18.708	-0.644	-3.4	25.015
National Science Foundation	6.959	6.369	0.590	9.3	9.392
Personnel Management	96.559	94.350	2.209	2.3	126.173
Small Business Admin.	1.703	32.554	-30.851	-94.8	33.197
Social Security Admin.	1230.237	1132.130	98.107	8.7	1519.734
Retirement Benefits	1052.402	963.151	89.251	9.3	1293.782
Federal Disability Payments	117.950	114.946	3.004	2.6	153.918
Other Independent Agencies	5.571	76.993	-71.422	--	77.793

	FY2021	FY2022	FY2023	FY2024	FY2025*
Interest					
Gross	562.4	717.6	879.3	1,133.0	921.0
Net	352.3	475.1	659.2	881.7	748.7
Natl Debt	28,428.9	30,928.9	33,167.4	35,464.7	36,211.5
\$ change	1,483.5	2,500.0	2,238.5	2,297.3	746.8
Deficit	2,775.6	1,375.5	1,695.2	1,832.4	1,337.4
10-yr Yield	1.27	2.38	3.81	4.25	4.37

* FY2025 through June

INTEREST RATES



A couple of downdrafts for stocks from the July 3 record on tariff news this week. Stocks fell as much as 1.2% Monday (Trump tariff letters 25% for Japan and South Korea starting August 1 announced around 1220pm ET). New highs on Thursday until Friday's decline as much as 0.7% on news Canada tariff would be 35%. No one knows when the tariff threats will end, and the tariff effects will take time to affect the trade and inflation data. Trump waited till Saturday morning to put 30% tariffs on Mexico and the EU starting August 1. Bond yields saw a good 10-yr auction on Wednesday, and perhaps some assist with Trump's 3 percentage points rate cut news at 10am ET. The bond market sell-off, higher yields trend from 4.19% on July 1 is holding with support at 4.34%. Stay tuned. Oh, and Fed Governor Waller who wants Powell's job said Thursday a rate cut in July would not be political.

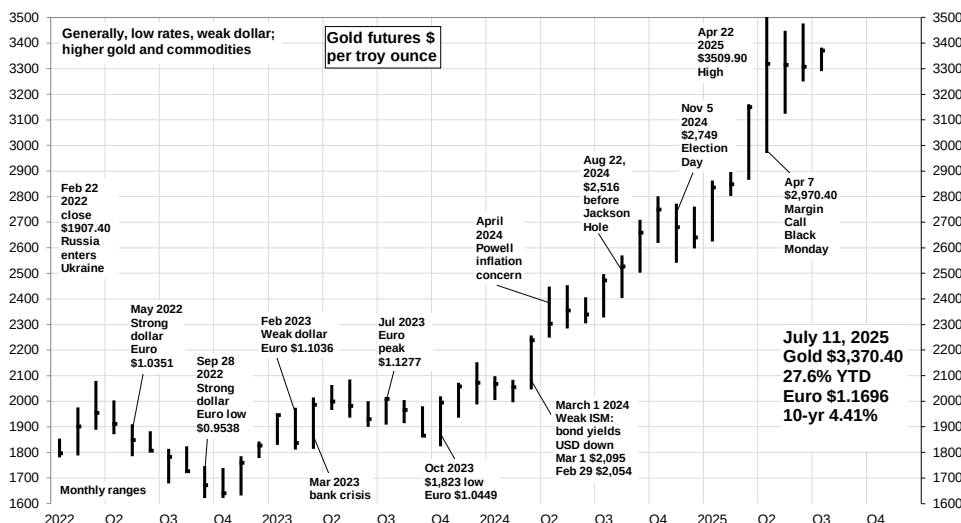
Gold futures up 27.6% YTD; S&P 500 up 6.4% YTD

Gold went on a \$500 run after initially falling for a few days with stocks and bonds following the Trump tariff Rose Garden speech on April 2. The peak was \$3,509.90 on April 22. The dollar has not weakened much since the gold April 22 high of \$3,509. Euro was \$1.1574 April 21 and the recent high was \$1.1829 on July 1.

S&P 500 Weights

Top 7: 33% of S&P

7.53	NVIDIA
7.01	MSFT
5.97	AAPL
3.95	AMZN
2.97	Meta
2.44	Broadcom
1.94	GOOGL
1.58	GOOG



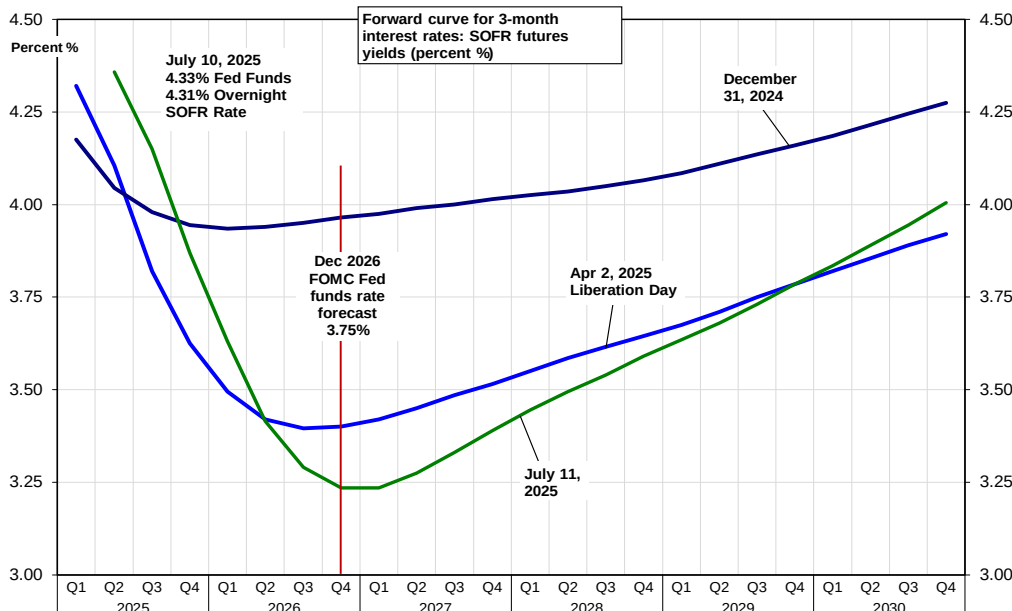
FEDERAL RESERVE POLICY

The Fed meets July 29-30, 2025 to consider its monetary policy. The President said rates should be 3 percentage points lower at 1.5% Wednesday morning before the June Fed meeting minutes released same-day at 2pm. There was a good 10-yr Treasury auction the same day at 1pm. We like our money market fund interest, but the President is unlikely to agree with our idea that the Fed funds rate should be brought down to 3% neutral over time and then just let it sit there through economic cycles. Fed funds futures see two 25 bps Fed rate cuts this year if you can trust the low-volume on the January 2026 contract, and Bessent talking with billionaires in Idaho said two rate cuts as well. The 1.5% Trump rate will have to wait for now, but 2026 could see Fed meetings closer to the style of his cabinet meetings.

Selected Fed assets and liabilities						Change from 3/11/20 to Jul 9
Fed H.4.1 statistical release billions, Wednesday data						
	9-Jul	2-Jul	25-Jun	18-Jun	3/11/20*	
Factors adding reserves						
U.S. Treasury securities	4208.526	4208.325	4212.617	4212.303	2523.031	1685.495
Federal agency debt securities	2.347	2.347	2.347	2.347	2.347	0.000
Mortgage-backed securities (MBS)	2138.496	2138.496	2138.496	2156.168	1371.846	766.650
Repurchase agreements	0.000	0.000	0.016	0.000	242.375	-242.375
Primary credit (Discount Window)	6.131	6.354	6.308	5.383	0.011	6.120
Bank Term Funding Program	0.000	0.000	0.000	0.000		
FDIC Loans to banks via Fed	0.000	0.000	0.000	0.000		
Paycheck Protection Facility	1.442	1.449	1.673	1.722		
Main Street Lending Program	5.189	5.184	5.179	5.174		
Term Asset-Backed Facility (TALF II)	0.000	0.000	0.000	0.000		
Gold stock	11.041	11.041	11.041	11.041	11.041	0.000
Central bank liquidity swaps	0.055	0.037	0.019	0.021	0.058	-0.003
Federal Reserve Total Assets	6713.2	6710.4	6713.5	6732.3	4360.0	2353.210
3-month Libor % SOFR %	4.32	4.40	4.36	4.28	1.15	3.170
Factors draining reserves						
Currency in circulation	2403.329	2401.421	2395.195	2393.987	1818.957	584.372
Term Deposit Facility	0.000	0.000	0.000	0.000	0.000	0.000
U.S. Treasury Account at Fed	311.048	372.232	334.579	383.851	372.337	-61.289
Treasury credit facilities contribution	2.029	2.029	2.029	2.029		
Reverse repurchases w/others	227.273	237.307	210.879	205.050	1.325	225.948
Federal Reserve Liabilities	3371.237	3453.862	3366.184	3409.310	2580.036	791.201
Reserve Balances (Net Liquidity)	3341.999	3256.502	3347.274	3322.991	1779.990	1562.009
Treasuries within 15 days	50.659	55.110	64.395	54.451	21.427	29.232
Treasuries 16 to 90 days	199.034	192.079	194.397	205.803	221.961	-22.927
Treasuries 91 days to 1 year	436.472	438.945	422.659	421.157	378.403	58.069
Treasuries over 1-yr to 5 years	1434.947	1434.865	1449.600	1449.494	915.101	519.846
Treasuries over 5-yrs to 10 years	516.011	515.988	511.577	511.546	327.906	188.105
Treasuries over 10-years	1571.403	1571.338	1569.989	1569.852	658.232	913.171
Note: QT starts June 1, 2022						
U.S. Treasury securities	-1562.253	4208.526	5770.779			
Mortgage-backed securities (MBS)	-568.950	2138.496	2707.446			
**March 11, 2020 start of coronavirus lockdown of country						

Fed Policy-key variables				Long Term
	2025	2026	2027	
Fed funds	3.9	3.6	3.4	3.0
PCE inflation	3.0	2.4	2.1	2.0
Core inflation	3.1	2.4	2.1	
Unemployed	4.5	4.5	4.4	4.2
GDP	1.4	1.6	1.8	1.8
June 2025 median Fed forecasts				

Fed Policy-key variables				Long Term
	2025	2026	2027	
Fed funds	3.9	3.4	3.1	3.0
PCE inflation	2.7	2.2	2.0	2.0
Core inflation	2.8	2.2	2.0	
Unemployed	4.4	4.3	4.3	4.2
GDP	1.7	1.8	1.8	1.8
March 2025 median Fed forecasts				



All but 7 bps of a 25 bps rate cut is expected by the September meeting.

Fed funds futures call Fed policy		
Current target: July 11 -- 4.50%		
Rate+0.17	Contract	Fed decision dates
4.485	Aug 2025	Jul 30
4.320	Oct 2025	Adds Sep 17*
4.175	Nov 2025	Adds Oct 29
Last trade, not settlement price		
*Not strictly true, Oct 2025 could be 2 days at a new rate		

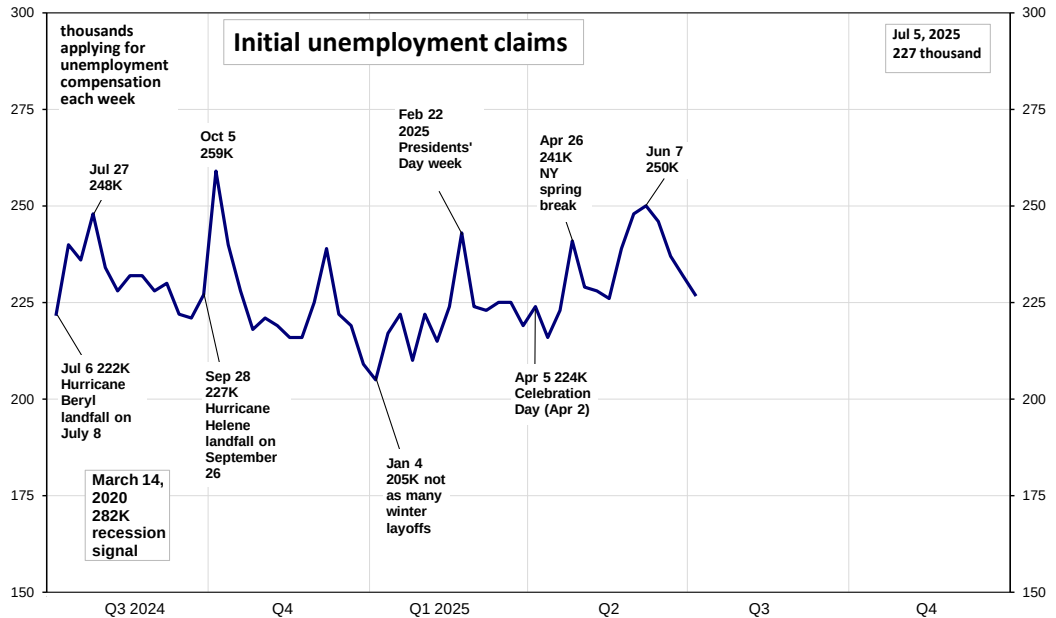
Next up: June CPI inflation report Tuesday, July 15 at 830am ET

Monthly	2025					2025					2024				
% Changes	Jun	May	Apr	Mar	Feb	Jan	Dec	Nov	Oct	Sep	Aug	Jul	Jun	May	Apr
Core CPI inflation		0.1	0.2	0.1	0.2	0.4	0.2	0.3	0.3	0.3	0.3	0.2	0.1	0.1	0.3
Core PCE inflation		0.2	0.1	0.1	0.5	0.3	0.2	0.1	0.3	0.3	0.2	0.2	0.2	0.1	0.3
Core PCE YOY		2.7	2.6	2.7	2.9	2.7	2.9	2.8	2.8	2.7	2.7	2.7	2.6	2.7	2.9
Core CPI YOY		2.8	2.8	2.8	3.1	3.3	3.2	3.3	3.3	3.3	3.2	3.2	3.3	3.4	3.6

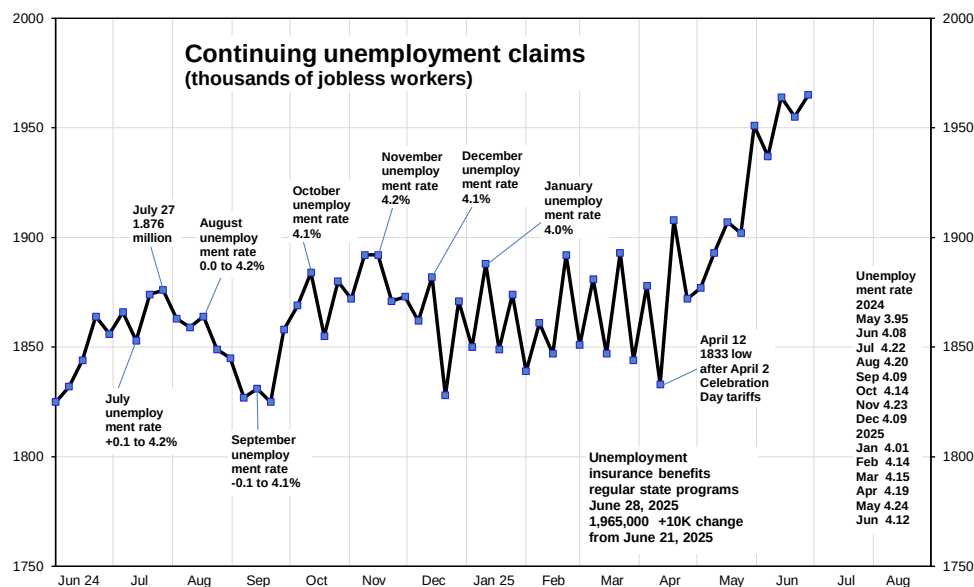
OTHER ECONOMIC NEWS

2025 record for jobless benefits (Thursday)

Breaking economy news. First-time jobless claims have come back down to 227K in the July 5 holiday week from the recent peak of 250K in the June 7 week. The seasonal layoffs at the automakers for “factory retooling and maintenance” in the first two weeks of July, traditionally, sent initial claims in Michigan up to 15,581 from 6,783 the week before but it wasn’t enough to overwhelm the seasonal factor. Continuing claims are at a new 2025 high of 1.965 million in the June 28 week showing the lagged effect of first time claims earlier in June, or it could mean there are no jobs for the taking out there so the jobless continue to take the benefits.



Net, net, the labor market outlook remains uncertain, and while the trade war announcements have not led to any additional new filings for jobless benefits, the underlying picture is much darker with a record number of Americans drawing unemployment benefits because there is no work out there for them currently. We can only conclude that American businesses have simply stopped hiring as the path ahead for the economy looks increasingly difficult with tariffs likely to boost the costs of goods purchased by consumers and businesses alike. A hiring freeze means Americans are stuck on the nation’s jobless rolls with no way to get off. Stay tuned.



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